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1 PURPOSE

This contribution will address the following areas: (1) ANSI's role in the U.S. voluntary consensus standardization system and its activities in the area of intellectual property rights; (2) ANSI's current views on issues relating to the inclusion of patents, copyrighted software or trademarks in standards, and issues relating to the assertion of copyright in the standards themselves; and (3) ANSI's assessment of the current legal landscape in the United States relating to these topics, including recent actions by the U.S. Federal Trade Commission (FTC) and the U.S. Department of Justice (DOJ) and recent case law developments concerning standards essential patents.

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2 REFERENCES

Past ANSI Contributions to GSC IPR WGs.

3 CONTENT

I. <u>The American National Standards Institute ("ANSI") and the U.S. Voluntary Consensus Standardization System</u>

For nearly 100 years, the U.S. voluntary consensus standardization system has been administered and coordinated by the private sector through ANSI, with the cooperation of federal, state, and local governments. ANSI also is the established forum for the U.S. voluntary standardization community, and serves as the United States representative to two major, nontreaty international standards organizations: The International Organization for Standardization ("ISO") and, through the United States National Committee ("USNC") of the International Electrotechnical Commission ("IEC").[1]

ANSI is a unique federation with membership drawn from industry, standards developers and other professional, technical, trade, labor, academic and consumer organizations, and government agencies. In its role as an accreditor of U.S. voluntary consensus standards developing organizations ("SDOs"), ANSI helps to maintain the integrity of the standards development process and determines whether standards meet the necessary criteria to be approved as American National Standards. ANSI's approval of these standards (currently numbering over 10,000) is intended to verify that the principles of openness and due process have been followed and that a consensus of materially interested stakeholder groups has been reached. ANSI and its accredited SDOs are often characterized as the "*de jure*" or more formalized standards-setting process in the United States. Two standards organizations that participate in the GSC are accredited by ANSI: Alliance for Telecommunications Industry Solutions ("ATIS") and the Telecommunications Industry Association ("TIA").

ANSI plays an important role in shaping the policies and strategies of the United States voluntary consensus standardization system, including those policies and strategies related to intellectual property law. For example, in 2005, ANSI brought together a cross section of public and private sector interests to reexamine the principles and strategies that guide how the United States develops standards and participates in the international standards-setting process. What emerged from that collaboration was the *United States Standards Strategy*, a document that identifies the goals and strategies of the United States' standards community and provides a vision for the future of the U.S. standards system in today's globally competitive economy.[2]

The *United States Standards Strategy* addresses the importance of intellectual property rights, whether such rights relate to patents, trademarks or copyrights that are embedded in standards or copyright protection for the standards themselves. It also lists among its "tactical initiatives" the following:

[1] ANSI also represents the U.S. in the International Accreditation Forum ("IAF"), which has the goal of reducing duplicative conformity assessment requirements (that often serve as non-tariff barriers to trade) by providing the basis for product certifications and quality system certifications/registrations performed once, in one place and accepted worldwide. ANSI also participates in the international Quality Systems Assessment Recognition Program ("QSAR"). Because of the breadth of its participation in standards activities worldwide, the Institute is able to provide a central source of information and education on standards, conformity assessment programs and related activities in the U.S. and abroad. Through active participation in regional standardization organizations such as COPANT (for Latin America) and PASC (for the Pacific Rim), ANSI provides strong advocacy for the use of U.S. standards and technology throughout the global marketplace. In doing so, ANSI works very closely with the National Institute of Standards and Technology ("NIST"), the Office of the U.S. Trade Representative ("USTR"), the U.S. Departments of Commerce and State, and other federal agencies, as well as with hundreds of trade associations, companies, and consumer and labor organizations.

[2] www.ansi.org/standards_activities/nss/usss.aspx The United States Standards Strategy was approved by the ANSI Board of Directors on December 8, 2005 (and was updated and re-approved on December 2, 2010).

- Government should advance and respect policies at home and abroad that ensure the continued ownership and control of the copyrights and trademarks of standards developers.

- All elements of the U.S. standardization system should support policies that allow U.S. standards developers to participate in international standards development activity without jeopardizing their copyrights and trademarks, and that recognize the flexible funding models that exist within the U.S.

The U.S. standardization system and its consensus-based, public-private partnership is reflected in the *National Technology Transfer and Advancement Act of 1995* **("NTTAA")**, Public Law 104-113. This law directs all federal government agencies to use for regulatory, procurement, and other agency activities, wherever feasible, standards and conformity assessment solutions developed or adopted by voluntary consensus standards bodies in lieu of developing government-unique standards or regulations. The NTTAA also encourages government agencies to participate in standards development processes, where such involvement is in keeping with an agency's mission and budget priorities.

The NTTAA remains the cornerstone for promoting the use of voluntary consensus standards and conformance in both regulation and procurement at the federal level. The Office of Management and Budget ("OMB") – through its **OMB Circular A-119** – confirms that close interaction and cooperation between the public and private sectors is critical to developing and using standards that serve national needs and support innovation and competitiveness.

The federal government is a key player in the U.S. standardization system. Thousands of federal agency representatives participate in the private-sector led standards development process consistent with the mandate and authority under the NTTAA and OMB Circular A-119. Even more importantly, government participation means that government users understand both the intent and content of specific standards and conformity assessment activities. Government representatives currently participate in the activities of hundreds of standards developing organizations, at both the technical and policy levels.

ANSI administers a policy committee that formulates the Institute's positions on intellectual property issues in domestic, regional, and international policy areas. The ANSI Intellectual Property Rights Policy Committee (the "ANSI IPRPC") is responsible "for broad-based policy and position decisions regarding national, regional, and international intellectual property matters, including the global trade aspects of such matters."

In keeping with this broad mandate, the IPRPC provides input and guidance on IP-related matters both internationally and domestically. For example, on the international front, the IPRPC has provided input to:

- ISO's Technical Management Board (TMB) regarding the German Institute for Standardization's ("DIN's") proposed new work item for a new ISO standard on Patent Valuation (March 2008);
- the Government of India regarding a proposed document on "Open Standards" for e-Governance (submitting ANSI's own "Critical Issues Paper on Open Standards"[3] for consideration) (November 2008);
- the European Commission ("EC") regarding a definition of "Open Standard" used by the European Interoperability Framework ("EIF") for pan-European e-Government Services (submitting ANSI's Critical Issues Paper on Open Standards for consideration) (November 2009);
- the China National Institute of Standardization ("CNIS") raising questions and offering comments regarding its proposed Guide for the Implementation of the Inclusion of Patents in National Standards[4] (February 2010);
- the Organisation for Economic Co-Operation and Development ("OECD") Working Party regarding a Competition and Regulation Roundtable Discussion on Standard Setting (June 2010);
- the European Standardisation System ("EXPRESS") regarding its report concerning *"Standardisation for a competitive and innovative Europe: a vision for 2020"* (June 2010);
- the United Kingdom Cabinet Office Public Consultation on Open Standards (submitting the ANSI Critical Issues Paper on Open Standards for consideration)(April 2012); and
- the Standardization Administration of the People's Republic of China ("SAC") regarding "SAC Draft Administrative Rules on National Standards Involving Patents (Interim)" (January 2013).

On the domestic front, the IPRPC provided comments to:

- the Federal Communications Commission (FCC) regarding a petition for Rulemaking and Request for Declaratory Ruling Filed by the Coalition United to Terminate Financial Abuses of the Television Transition LLC (CUT FATT) (May 2009);
- the National Science and Technology Council's Subcommittee on Standards (NSTC SoS) regarding its request for information concerning the *"Effectiveness of Federal Agency Participation in Standardization in Select Technology Sectors"*[5] (March 2011);

[3] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/Open-Stds.pdf

[4] http://publicaa.ansi.org/sites/apdl/Documents/News%20and%20Publications/Critical%20Issues/CNIS%20patents%20in%20standards/CNIS-Submission_ANSI_Patents_20100228.pdf

[5] http://publicaa.ansi.org/sites/apdl/Documents/News%20and%20Publications/Links%20Within%20Stories/ANSI%20Response%20to%20Request%20for%20Information%20on%20Federal%20Agencies-030411.pdf

- the Federal Trade Commission's (FTC's) request for comments on standard-setting issues (addressing the purpose of ANSI's Patent Policy, the rationale behind RAND and views on *ex ante* licensing discussions[6])(June 2011);
- the Office of the Federal Register, National Archives and Records Administration (NARA) regarding its request for input on the incorporation by reference of private-sector standards into U.S. law[7] (June 2012);
- the Office of Management and Budget (OMB), regarding whether and how to supplement OMB Circular A-119, Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities [8] (June 2012); and
- National Academies of Science project sponsored by the US Patent and Trademark Office (USPTO) in June 2011 on "**Intellectual Property Management in Standard-Setting Processes: An International Comparison.**"

The IPRPC is also responsible for developing ANSI positions on issues relating to the incorporation of essential patents or other proprietary intellectual property in national, regional or international standards and for developing ANSI positions on such matters. Through the work of ongoing task groups, the committee is currently analyzing disclosure policies, obligations of purchasers of RAND-encumbered patents, software policies, and a recent statement from an official of the Department of Justice suggesting potential changes to the intellectual property rights policies of standards development organizations.

II. ANSI's Views on Issues Relating to the Inclusion of Proprietary Intellectual Property in Standards

A. Patents

The intersection of standards-setting, patent rights, and antitrust concerns is not new. For decades the standards community has fashioned related policies and procedures that allow for the inclusion of patented inventions in standards. The **ANSI Patent Policy** applies to the development of all American National Standards ("ANS"). It was written with the objective of finding a balance among the rights of the patent holder, the interests of competing manufacturers seeking to implement the standard, the consensus of the technical experts from different stakeholder groups on the desired content of the standard, the concerns and resources of the SDO, the impact on consumer welfare, and the need to avoid unnecessary strictures that would

[6] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/Federal%20Register%20Notice%20-%20Request%20for%20Comments%20and%20Announcement%20of%20Workshop%20on%20Standard-Setting%20Issues/ANSI_Response-FTC_re_Standard-setting_Issues_FINAL.pdf

[7] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/FederalRegister_IncorporationByReference_IBR/ANSI%20Response%20IBR_041012.pdf

[8] http://publicaa.ansi.org/sites/apdl/Documents/News%20and%20Publications/Critical%20Issues/Copyright%20on%20Standards%20in%20Regulations/Copyright%20on%20Standards%20in%20Regulation.pdf

discourage participation in the standards development process. The Policy's efficacy is, in ANSI's view, evidenced by the fact that there has not been any adjudicated abuse of the process relating to patents that has occurred in connection with any ANS.

The ANSI Patent Policy is very similar to the common patent policy of ISO, IEC, ITU-T, and ITU-R. These policies recognize that it is permissible to develop standards that include the use of patented items if there are sufficient technical reasons to justify that approach. While standards developers routinely choose whether or not to include technology (patented or not) from various sources, care should be taken not to exclude technology for anti-competitive reasons. As recognized by the United States Federal Trade Commission in *American Society of Sanitary Engineering,*[9] if a standards development organization comes to enjoy significant market power, its decisions to exclude technology from a standard can unreasonably restrain trade by misleading consumers, depriving them of information about the performance of the product, or even excluding a technically advanced product from the market.[10]

Under the terms of ANSI's Patent Policy (and the patent policy published by ISO, IEC and ITU), the "best" solution – which may belong exclusively to a patent holder – can be incorporated into a standard and made available to all relevant manufacturers to exploit in competing commercial products. In return for "sharing" its patented technology (including making it available to its competitors), the patent holder may receive reasonable compensation from implementers of the standard under terms that are non-discriminatory. The patent laws were designed in part to stimulate innovation and investment in the development of new technologies, which can greatly contribute to the success and vitality of a standardized solution to an interoperability or functionality challenge.

ANSI Patent Policy and/or the accompanying **Patent Guidelines** reflect a number of characteristics, including the following:

- The ANSI Patent Policy focuses on patents containing essential patent claims;

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[9] *See* American Society of Sanitary Engineering, Dkt. C-3169, 106 F.T.C. 324 (1985). It is noteworthy that the invention at issue in that case – the Fillpro valve designed by J.H. Industries – which was "excluded" from the standard was not an "essential" technology. If permitted by the standard, it would be one of many conforming implementations of the standard.

[10] In February 2001 then FTC Chainman Timothy J. Muris summarized the case, which challenged a policy that prohibited the inclusion of a patented technology in a standard, in a presentation to the American Bar Association. In that presentation Chairman Muris stated: "At issue was a small business that had developed an innovative toilet tank fill valve. The evidence indicated that this new valve protected against backflow, or water contamination. The manufacturers of this new valve also claimed that its unique design conferred a number of performance advantages over existing technology. The critical fact was that the new valve prevented backflow through a device other than the one that the ASSE standard specified. The ASSE refused to develop a standard for evaluating the ability of this new valve to prevent backflow. In essence, 'the existing manufacturers did not sanction an innovative product unless they could also produce it.' The consent order required, among other things, that the ASSE stop refusing requests for issuance of a standard or modification of an existing standard for a product merely because only one or a small number of manufacturers patent or make the product."
See: http://www.ftc.gov/speeches/muris/intellectual.shtm#N_52_#N_52_

- It does not impose a duty on a patent holder to undertake a search of its patent portfolio.
- It does not address patent applications;
- Assessment of the existence and validity of asserted patent rights is conducted outside of the standards-setting venue;
- Specific licensing terms are discussed outside of the standards-setting venue;
- Nondiscriminatory under the ANSI Patent Policy does not necessarily mean identical.

An extended discussion of each of these characteristics is included in **ANSI's GSC-16 Contribution**, at pages 4 to 11.

B. Copyrighted Software

ANSI publishes guidelines relating to the incorporation of copyrighted software/source code in American National Standards. ***See* ANSI Guidelines on Software in Standards**. The ANSI IPRPC generally concurs with the approach taken by the ITU-T, which is to discourage the inclusion of essential copyrighted material in standards. A standard requiring the use of particular software should be an exceptional situation and agreed to within the consensus body. Whenever possible, a standard should be based on functional specifications and should be an unencumbered expression of a proposed implementation as opposed to mandating the use of a specific and proprietary copyrighted software/source code.

C. Marks

The ANSI IPRPC publishes guidelines related to the inclusion of trademarks, service marks, or certification marks in ANSs. ***See* ANSI Guidelines on Embedded Trademark**. The primary concern relating to the inclusion of a mark in a standard is whether it would appear as if the standard is endorsing one particular proprietary product or service over competing ones. As a general rule, standards should provide a description of features from which competing and interoperable implementations can be developed. The appearance that a standard endorses any particular products, services or companies should be avoided. Therefore, proper names, trademarks, service marks, or certification marks of specific companies, products, or services should not be included in the text of a standard if it appears that it might cause this effect.

D. Issues Relating to Copyright in the Standards Themselves

There are a number of older decisions of interest to the standards community relating to "copyrightability" of standards that have been issued by a number of United States courts. For example, the U.S. Courts of Appeals for the Second and Ninth Circuits have addressed the issue whether the text of a privately authored standard enters the public domain *ipso facto* when subsequently it is referenced into law by a government body at any level (federal, state, local). These courts have held that it does not. *See*, *CCC Information Service, Inc. v. Maclean Hunter Market Reports, Inc.*, 44 F.3d 61 (2d Cir. 1994) and *Practice Management Information Corporation v. AMA*, 121 F.3d 516 (9th Cir. 1997).

In early 2001, the Court of Appeals for the Fifth Circuit addressed the issue whether a private-sector standard loses its copyright protection when it becomes a law or regulation in *Veeck v. Southern Building Code Congress International, Inc.*, 241 F.3d 398 (5th Cir. 2001). The Southern Building Code Congress International ("SBCCI") developed and promulgated building codes that are often made mandatory through legislative action by local governments. Mr. Veeck purchased a copy of SBCCI's privately copyrighted codes (complete with a shrink-wrap license agreement). He then posted the codes on his website as the law of the cities of Anna and Savoy, Texas, which had referenced the codes into their local laws. ANSI, along with a number of SDOs, submitted an amicus brief in the *Veeck* case in support of SBCCI.

The Fifth Circuit issued an *en banc* decision on June 7, 2002. *See Veeck v. Southern Building Code Congress International, Inc.*, 293 F.3d 791 (5th Cir. 2002) (*en banc*). The full Court narrowly voted in favor of Mr. Veeck, holding that SBCCI retains the copyright in its standard, but that "[w]hen those codes are enacted into law … they become to that extent 'the law' of the governmental entities and may be reproduced or distributed as 'the law' of those jurisdictions." 293 F.3d at 802. The Court further observed that laws are not subject to federal copyright law, and "public ownership of the law means that 'the law' is in the 'public domain' for whatever use the citizens choose to make of it." 293 F.3d at 799.

The Court also addressed arguments made by *amici* supporting SBCCI's perspective:

> Several national standards-writing organizations joined SBCCI as *amici* out of fear that their copyrights may be vitiated simply by the common practice of governmental entities' incorporating their standards in laws and regulations. This case does not involve references to extrinsic standards. Instead, it concerns the wholesale adoption of a model code promoted by its author, SBCCI, precisely for use as legislation…. In the case of a model code … the text of the model serves no other purpose than to become law.

A lengthy discussion of each these cases is included in **ANSI's GSC-16 Contribution**, at pages 14 to 19.

More recently, the issue of standards incorporated by reference, has arisen in connection with the process by which federal agencies publish regulations in the *Federal Register*. Under the publications rules of the Federal Register, 5 U.S.C. Section 552, information may be incorporated by reference into, and thereby "deemed published" in, the Federal Register if made "reasonably available to the class of persons affected thereby." [11] Questions have arisen whether, in the Internet age, "reasonably available" necessarily means something more than making hard copies available in an often remote government facility. For example, the "Pipeline Safety Bill" of 2011 introduced a provision requiring certain standards incorporated by reference by the U.S. Department of Transportation ("DOT") be made available for "free online."[12]

11 http://www.archives.gov/federal-register/cfr/ibr-locations.html#why

12 http://www.gpo.gov/fdsys/pkg/PLAW-112publ90/pdf/PLAW-112publ90.pdf

A number of projects have attempted to address this issue. For example:

- The Administrative Conference of the United States (ACUS) published a paper on the same subject in 2011 advocating that Federal Agencies considering incorporating materials by reference should ensure that the material will be reasonably available both to regulated and other interested persons.[13]
- In February 2012, the National Archives and Records Administration issued a *Federal Register* notice soliciting input from the standards community on IBR and, in particular, on what constitutes "reasonable availability" under the CFR.[14]
- A month later, a *Federal Register* notice was issued by OMB, which also included questions on the IBR issue.[15]

ANSI has been very active in this area, submitting responses to both *Federal Register* notices, participating in workshops conducted by ACUS, the DOT and the OMB, and hosting and co-hosting forums and workshops on the subject.[16] ANSI's position on incorporation by reference is that the text of standards and associated documents that have been incorporated by reference should be available to all interested parties on a reasonable basis, but that does not necessarily mean "for free" and could include appropriate compensation as determined by the SDO/copyright holder. Some SDOs make certain standards available online on a read-only basis, while others make standards available at discounts or without charge to consumers, policymakers, and small businesses.

In light of the *Veeck* case, and other decisions, as well as the ongoing debate on incorporation by reference, ANSI recommends that standards developers make strategic decisions with regard to: (a) how they describe the purpose of their standards, (b) the format in which they publish their standards, (c) how they acquire copyrights in the standards; and (d) how they protect their copyright when such standards are sold or distributed. ANSI's IPRPC will continue to monitor the *Veeck* and other cases which address copyright protection for standards.[17]

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[13] http://www.acus.gov/wp-content/uploads/downloads/2011/10/Revised-Draft-IBR-Report-10-19-11.pdf

[14] https://www.federalregister.gov/articles/2012/02/27/2012-4399/incorporation-by-reference#p-3

[15] https://www.federalregister.gov/articles/2012/03/30/2012-7602/federal-participation-in-the-development-and-use-of-voluntary-consensus-standards-and-in-conformity

[16] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/FederalRegister_IncorporationByReference_IBR/ANSI%20Response%20IBR_041012.pdf; http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/FederalRegister_OMBA119/ANSI%20Response%20OMB-A119_FINAL.pdf

[17] In another copyright case of note, on March 27, 2006, a summary judgment decision was issued in a case captioned International Code Council, Inc. v. National Fire Protection Association, 2006 U.S. Dist. LEXIS 13783. That lawsuit was based on claims brought by one building code developer ("ICC") against another ("NFPA") alleging that NFPA's model building code, the NFPA 5000, infringed ICC's earlier building code, IBC 2000, in that the two codes used similar or identical language in

III. The U.S. Legal Landscape Regarding the Inclusion of Essential Intellectual Property in Standards

This section will address recent activities involving the U.S. Federal Trade Commission ("FTC") and the U.S. Department of Justice ("DOJ") as well as recent case law developments relating to the inclusion of intellectual property in standards. Of particular interest in these areas are the following: (1) a joint report issued by the FTC and DOJ in 2007 relating to antitrust enforcement and intellectual property rights; (2) recent developments at U.S. antitrust enforcement agencies concerning standards essential patents; and (3) recent case law in this area.

1. The FTC/DOJ Joint Report

On April 17, 2007, the FTC and DOJ released a long-anticipated joint report entitled "Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition" (the "Report") which attempts to synthesize the various views, including testimony furnished by ANSI, that were expressed during a 24-day series of hearings jointly conducted by the Agencies in 2002. The Report consists of six chapters devoted to particular IP-related practices, and states conclusions for each chapter.

Briefly, those conclusions are: *Chapter 1* (Antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections although conditional refusals to license can be subject to antitrust liability if they cause competitive harm); *Chapter 2 (*E*x ante* consideration of licensing terms by SDO participants may be procompetitive, likely to be analyzed under the rule of reason); *Chapter 3* (Combining complementary patents in cross licenses or patent pools is generally procompetitive); *Chapter 4* (The flexible rule of reason approach set forth in the Agencies' 1995 *Antitrust-IP Guidelines* is fundamentally sound and the Agencies will continue to use it to assess the competitive effects of a range of licensing restraints, including non-assertion clauses, grantbacks, and reach-through royalty agreements; *Chapter 5* (Regarding IP-related bundling and tying, the *Antitrust-IP Guidelines* will continue to govern the Agencies' analysis, meaning that the Agencies will focus on seller market power, competitive effects in the tied product market, and efficiency justifications proffered in favor of the bundle or tie); and *Chapter 6* (When licensing practices are alleged to extend a patent beyond its statutory term, the Agencies will apply standard antitrust analysis, including consideration of whether the patent confers market power, which generally will lead to analysis under the rule of reason).

The second chapter focuses entirely on antitrust issues that may arise from collaborative standard setting when standards incorporate technologies that are protected by intellectual property rights. According to the Report, these issues may involve the potential for "hold up" by

many of their provisions and tables. The court denied NFPA's motion for summary judgment, finding that material issues of fact required that the matter be tried, but its analysis of some of the copyright issues may be of interest to the U.S. standards developer community. A lengthy discussion of the case is included in **ANSI's GSC-16 Contribution**, ANSI's Activities Related to IPR and Standards, at pages 17 to 26.

the owner of patented technology after its technology has been chosen by an SDO for inclusion in a standard and others have incurred sunk costs which effectively increase the relative cost of switching to an alternative standard. The question raised by the Report is whether *ex ante* negotiation (*i.e*., negotiation *prior* to the lock-in- of a patent in a standard) of licensing terms by standard-setting participants constitutes a *per se* violation of section 1 of the Sherman Act because competitors would be acting jointly to negotiate licensing terms with each of the firms whose technology may be considered for inclusion in the SDO's standard.

The Report observes that:

> [A] *per se* approach fails to recognize that negotiating licensing terms during the standard-setting process may increase competition between technologies that are being considered for inclusion in a standard. In light of these potential procompetitive benefits, the Agencies would generally expect to apply the rule of reason to evaluate conduct such as multilateral *ex ante* licensing negotiations or SSO requirements to disclose mode licensing terms.

The Report "take(s) no position" as to whether standards developers *should* engage in joint *ex ante* discussion of licensing terms, but recognizes that "joint *ex ante* activity to establish licensing terms as part of the standard-setting process should not result in *per se* condemnation." The Report notes that activities that might mitigate hold up and that take place before deciding which technology to include in the standard "could take various forms," including joint *ex ante* licensing negotiations or a rule adopted by the developer that requires intellectual property holders to announce their intended (or possibly even maximum) licensing terms for technologies being considered for adoption.

2. Recent Developments at US Antitrust Enforcement Agencies Concerning Standards Essential Patents[18]

Since the submission ANSI made to GSC-16, there have been a number of enforcement actions and written statements made by the two US federal antitrust enforcement agencies, the Antitrust Division of the US Department of Justice and the US Federal Trade Commission, that bear upon the interplay between interoperability standards and US antitrust law and policy. In Section III.2.A we discuss enforcement actions (including decisions not to enforce US antitrust law). In Section III.2.B we discuss policy statements.

[18] The FTC alleged violations of Section 5 of the Federal Trade Commission Act in four earlier matters involving standard setting. *Dell Computer Corp*., 121 F.T.C. 616 (1996); *In re Union Oil Company of California*, FTC Dkt. No. 9305 (2004); *In re Rambus*, FTC Dkt. No. 9302, Liability Opinion (2006), *rev'd, Rambus Inc. v. Federal Trade Commission*, 522 F.3d 456, 468 (D.C. Cir. 2008); *In re Negotiated Data Solutions*, LLC, Dkt. No. 051-0094 (2007). A lengthy discussion of each these matters are included in **ANSI's GSC-16 Contribution**, at page 19 to 22. The DOJ also issued to two ANSI-accredited SDOs "Business Review Letters" relating to their patent policies. A description of the policies proposed by these developers, as well as a summary of the Business Review Letters issued to them is included in **ANSI's GSC-16 Contribution**, at pages 23 to 25.

2.a **Antitrust Agency Enforcement Actions Concerning Standards Essential Patents**

1. *Google-Motorola Mobility* and *Rockstar-Bidco Closing Statement*: On July 30, 2011, a consortium of companies including Apple, Ericsson, Microsoft, and Research in Motion announced the acquisition of the patent portfolio previously owned by the bankrupt telecommunications company Nortel. A few weeks later, Google announced its intention to acquire Motorola Mobility, owner of a portfolio of patents claimed to be essential to implement a variety of wireless, networking, and video compression standards. Apple also proposed to acquire patents held by CPTN Holdings LLC, formerly owned by Novell, following CPTN's acquisition in April 2011 of those patents on behalf of Apple, Oracle Corporation and EMC Corporation. All transactions were reviewed by the Antitrust Division of the US Department of Justice. In a statement issued in February 2012, the Antitrust Division concluded that neither Google's acquisition of Motorola Mobility nor the acquisition of the Nortel patent portfolio by the consortium (called Rockstar Bidco) was likely substantially to lessen competition in violation of US antitrust law. The Antitrust Division's statement noted risk that, after standard is set, the owner of a standards-essential patent ("SEP") "could seek to extract a higher payment than was attributable to the value of the patent before the standard was set," behavior which "can distort innovation and raise prices to consumers." While the practice of requiring participants in standards development to commit to license on RAND or FRAND terms is "intended to reduce the subsequent inappropriate use of the patent rights at issue," "In practice, however, [standard setting organization] F/RAND requirements have not prevented significant disputes from arising in connection with the licensing of SEPs, including actions by patent holders seeking injunctive or exclusionary relief that could alter competitive market outcomes." As is its policy with respect to Closing Statements , the Antitrust Division clarified that "[e]nforcement decisions are made on a case-by-case basis."

2. *Bosch – SPX:* In 2012, the US Federal Trade Commission reviewed the acquisition by Bosch of the automotive air conditioning recharge business of SPX. During its investigation, the FTC learned of SPX's assertion of patents that SPX claimed were essential to implement automotive refrigerant standards issued by ANSI accredited SDO, the Society of Automotive Engineers ("SAE"). SPX had participated in standards development process and committed to license patents on RAND terms as provided for in SAE's IPR policy. The FTC approved the merger subject to a settlement negotiated with Bosch that addressed Bosch's future assertion of the SEPs Bosch would acquire through its acquisition of SPX. The FTC's majority opinion stated that in appropriate cases FTC will challenge use of injunctive relief for SEPs as violation of Section 5 of FTC Act, which prohibits unfair methods of competition, although it explained that it had no reason to believe that, in Bosch case, a monopolization count under the Sherman Act was appropriate. In the settlement agreement, Bosch voluntarily agreed to license both SEP and non-SEP IP royalty free and further agree not to seek injunctive relief or threaten to seek injunctive relief for both SEP and non-SEP IP unless a prospective licensee refused to take a license on terms set out in a revised Letter of Assurance that Bosch would provide to SAE. As explained in the Analysis of Agreement Containing Consent Orders to Aid Public Comment:

> "The Consent Order requires Bosch to offer a royalty-free license to all potential implementers for certain enumerated patents for the purpose of manufacturing ACRRR devices in the United States. … The Consent Order further requires Bosch to deliver to the SAE a letter of assurance that makes a binding, irrevocable commitment to license any additional patents that Bosch may acquire in the future that are essential to practicing the [SAE standards] on FRAND terms to any third party that wishes to use such patents to produce an ACRRR device for sale in the United States. Pursuant to its FRAND obligations, Bosch has agreed not to seek injunctive relief against such third parties, unless the third party refuses in writing to license the patent consistent with the letter of assurance, or otherwise refuses to license the patent on terms that comply with the letter of assurance as determined by a process agreed upon by both parties (e.g., arbitration) or a court."

There was a dissenting statement from FTC Commission Maureen Ohlhausen that discouraged use of Section 5 of the FTC Act to attack use of injunctive relief by owners of SEPs. The FTC received and reviewed public comments relating to its proposed settlement.[19] On April 24, 2013, the FTC issued its response to public comments and finalized its settlement with Bosch.

3. *Google:* In a proposed settlement announced in January 2013, the FTC alleged that Google's efforts to enjoin the sale of products implementing standards for which Google claims to own SEPs was a violation of Section 5 of the FTC Act, which prohibits unfair methods of competition. As explained in the Analysis of Proposed Consent Order to Aid Public Comment:

> "Under this Order, before seeking an injunction on FRAND-encumbered SEPs, Google must: (1) provide a potential licensee with a written offer containing all of the material license terms necessary to license its SEPs, and (2) provide a potential licensee with an offer of binding arbitration to determine the terms of a license that are not agreed upon. Furthermore, if a potential licensee seeks judicial relief for a FRAND determination, Google must not seek an injunction during the pendency of the proceeding, including appeals. Nothing in the Order limits Google or a potential licensee from challenging the validity, essentiality, claim of infringement or value of the patents at issue, and either party may object to a court action on jurisdictional or justiciability grounds, or on the ground that an alternative forum would be more appropriate. The Proposed Consent Order also does not prevent Google from pursuing legal claims regarding its FRAND-encumbered SEPs other than a claim for injunctive relief, such as an action seeking damages for patent infringement. The Order does not define FRAND but requires Google to offer, and follow, specific procedures that will lead to that determination."

Accompanying the opinion of a majority of the five FTC commissioners, there was a separate statement by FTC Commissioner Thomas Rosch concurring in the FTC's decision to

[19] In the Bosch matter, the FTC received 9 comments in response to the call for public comments, that can be found at http://ftc.gov/os/comments/rboschgmbh/index.shtm

issue the complaint. There was also a dissenting statement from FTC Commissioner Maureen Ohlhausen questioning what she described as the unbounded use of Section 5, which prohibits "unfair or deceptive acts or practices in or affecting commerce," to attack use of injunctive relief by owners of SEPs, in particular in light of decisions in another case involving Motorola Mobility finding that ETSI and IEEE IPR policies do not explicitly prohibit seeking of injunctive relief. The FTC has received numerous public comments pertaining to its proposed Google consent decree.

2.b **FTC and Antitrust Division Policy Statements Concerning Standards Essential Patents**

In addition to the three actions discussed above, both the Antitrust Division and the FTC have issued a number of policy statements since the ANSI submission to GSC-16 (or, in the case of the FTC's IP Marketplace report, just before ANSI submitted the GSC-16 report). These policy statements are noted below.

FTC IP Marketplace Report: In March 2011, the FTC issued a report on the operation of patent system in the United States. In the report, the FTC takes the view that defining RAND "based on ex ante value of patented technology at time standard is chosen" is "necessary for consumers to benefit from competition among technologies to be incorporated into the standard." (pp. 22-23). The FTC suggests that patent damages should be calculated using royalty base consisting of "smallest priceable component" that implements the patent (p. 25). [20] Moreover, the FTC explained that denial of an injunction may not prevent a patent assertion entity (PAE) from receiving the full value of the invention. The FTC also noted that courts "should give careful consideration under each of eBay's four factors to the consequences of issuing an injunction prohibiting use of a patented invention incorporated into an industry standard." And that "whether the patent owner made a RAND commitment will also be relevant to the injunction analysis". (p. 28).

1. *FTC Comments to US International Trade Commission in* Game Consoles *and* Wireless Devices *investigations:* In June 2012, the Federal Trade Commission submitted comments to the US International Trade Commission, a US government agency responsible for, among other things, making administrative determinations that products to be imported into the United States infringe US patents. By statute, "If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded

[20] A similar position was taken by the US Court of Appeals for the Federal Circuit in *Laserdynamics Inc. v. Quanta Computer, Inc., 694 F3d 51 (Fed Cir 2012),* in which the Federal Circuit, the appeals court responsible for patent disputes, interpreted the US patent statute generally to require that "royalties be based not on the entire product, but instead on the 'smallest salable patent-practicing unit,'" (Id. at 67) An exception to this general rule applies when the patented component can be shown to be the basis for customer demand for the entire product, in which case the entire market value rule applies. (Id. At 66).

from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy," it determines the articles should not be excluded. In two ITC investigations, *Game Consoles* and *Wireless Devices*, the owner of patents claimed to be essential to implement a variety of telecommunications, networking, and video compression standards sought to exclude game consoles and wireless handsets that implemented those standards. In its comment, the FTC described the potential for what it described as the potential for patent hold-up arising from the inclusion of patented technology in standards as:

> "deriv[ing] from changes in the relative costs of once competing technologies as a result of the standard setting process. Prior to adoption of a standard, alternative technologies compete to be included in the standard. SSO members often agree to license SEPs on RAND terms as a *quid pro* quo for the inclusion of their patents in a standard. Once a standard is adopted, implementers begin to make investments tied to the implementation of the standard. Because it may not be feasible to deviate from the standard unless all or most other participants in the industry agree to do so in compatible ways, and because all of these participants may face substantial switching costs in abandoning initial designs and substituting a different technology, an entire industry may become locked in to a standard, giving a SEP owner the ability to demand and obtain royalty payments based not on the true market value of its patents, but on the costs and delays of switching away from the standardized technology."[21]

The FTC went on to note that

> "Hold-up and the threat of hold-up can deter innovation by increasing costs and uncertainty for other industry participants, including those engaged in inventive activity. It can also distort investment and harm consumers by breaking the connection between the value of an invention and its reward – a connection that is the cornerstone of the patent system. The threat of hold-up may reduce the value of standard-setting, leading firms to rely less on the standard setting process and depriving consumers of the substantial procompetitive benefits of standard setting."[22]

The FTC noted that RAND commitments "mitigate the risk of patent hold-up", but "a royalty negotiation that occurs under the threat of an exclusion order may be weighted heavily in favor of the patentee in a way that is in tension with the RAND commitment" (p. 3) and "may allow the holder of a RAND-encumbered SEP to realize royalty rates that reflect patent hold-up rather than the value of the patent relative to alternatives …." (pp. 3-4) For that reason, the FTC urged the ITC to consider the impact of patent hold-up on consumers in the United States in cases involving the assertion of RAND-encumbered SEPs. As of this time, the ITC has not taken a position regarding the views expressed by the FTC.

[21] Third Party US Federal Trade Commission's Statement in the Public Interest, In the Matter of Certain Wireless Communications Devices, ITV Investigation No. 337-TA-745 (June 6, 2012) at 2 (footnotes omitted).

[22] Id. at 3.

2. *Testimony presented to Senate Judiciary Committee by FTC Commissioner Edith Ramirez and Acting Assistant Attorney General for Antitrust Joseph Wayland.* Also in June 2012, the Judiciary Committee of the United States Senate held a hearing regarding the use of International Trade Commission exclusion orders in patent disputes involving SEPs. Representatives of both the Antitrust Division and the FTC appeared and gave testimony at the hearing. The FTC's statement, delivered by Commissioner Edith Ramirez, discusses the risk of patent hold-up, how RAND commitments are intended to mitigate risk of patent hold-up, and how the threat of injunctive relief "may allow the owner of a RAND-encumbered SEP to realize royalty rates that reflect patent hold-up, rather than the value of the patent relative to alternatives." (pp. 6-7). In context of the issuance of orders of exclusion by US International Trade Commission ("ITC"), the FTC observed that making a RAND commitment implies that SEP owner "planned to monetize its IP through broad licensing on reasonable terms rather than through exclusive use – and thus would not likely be irreparably harmed by money damages." (pp. 11-12). The Antitrust Division's statement also noted the possibility of hold-up from the inclusion of patented technology in standards, and role that RAND commitments can play in mitigating hold-up. The Antitrust Division encouraged the ITC to consider whether granting orders of exclusion as to patents that are encumbered by F/RAND licensing commitments is consistent with public interest.

3. *US Department of Justice – US Department of Justice and US Patent and Trademark Office Policy Statement on Remedies for Standards Essential Patents Subject to Voluntary F/RAND Commitments:* In January 2013, the Antitrust Division of the US Department of Justice and the US Patent and Trademark Office issued a joint statement regarding the remedies the agencies believe should be available to owners of SEPs that are subject to voluntarily-assumed commitments to license on FRAND or RAND terms. The joint statement notes the benefits of standards development to "society as a whole by disseminating knowledge and by providing new and valuable technologies, lower prices, improved quality, and increased consumer choice." (pp. 1-2). The joint statement goes on to note the risk that:

> when a standard incorporates patented technology owned by a participant in the standards-setting process, and the standard becomes established, it may be prohibitively difficult and expensive to switch to a different technology within the established standard or to a different standard entirely. As a result, the owner of that patented technology may gain market power and potentially take advantage of it by engaging in patent hold-up, which entails asserting the patent to exclude a competitor from a market or obtain a higher price for its use than would have been possible before the standard was set, when alternative technologies could have been chosen (p. 4). Noting that F/RAND licensing commitments can address the risk of hold-up, the joint statement observes that A patent owner's voluntary F/RAND commitments may also affect the appropriate choice of remedy for infringement of a valid and enforceable standards-essential patent. In some circumstances, the remedy of an injunction or exclusion order may be inconsistent with the public interest. This concern is particularly acute in cases where an exclusion order based on a F/RAND-encumbered patent appears to be incompatible with the terms of a patent holder's existing F/RAND licensing commitment to an SDO. A decision maker

> could conclude that the holder of a F/RAND-encumbered, standards-essential patent had attempted to use an exclusion order to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment—in essence concluding that the patent holder had sought to reclaim some of its enhanced market power over firms that relied on the assurance that F/RAND-encumbered patents included in the standard would be available on reasonable licensing terms under the SDO's policy. Such an order may harm competition and consumers by degrading one of the tools SDOs employ to mitigate the threat of such opportunistic actions by the holders of F/RAND-encumbered patents that are essential to their standards.

(p. 6, footnotes omitted).

Nevertheless, the risk that permitting owners of SEPs to enjoin or exclude does not mean that such remedies are never appropriate. As the joint statement continues:

> This is not to say that consideration of the public interest factors set out in the statute would always counsel against the issuance of an exclusion order to address infringement of a F/RAND-encumbered, standards-essential patent. An exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder's commitment to license on F/RAND terms. For example, if a putative licensee refuses to pay what has been determined to be a F/RAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder.

(p. 7, footnotes omitted).

3. <u>Recent Case Law Developments Concerning Standards Essential Patents</u>

A. <u>Microsoft v. Motorola (Judge Robart - Western District of Washington) – Dismissal of Request for Injunction on Patent</u>

On June 6, 2012, Judge Robart of the federal district court in Seattle issued an order addressing cross-motions for summary judgment concerning Microsoft's allegation that Motorola had breached its obligations under the intellectual property rights policies of the IEEE and the International Telecommunications Union Technical Standardisation Branch ("ITU-T"). Judge Robart held that Microsoft was not required to first apply for a license or to negotiate with Motorola in order to trigger Motorola's RAND obligations, and that Microsoft had not repudiated its rights to a license on RAND terms to Motorola's standard-essential patents by filing a lawsuit attempting to enforce obligations it alleged Motorola had assumed through its participation in the two standards bodies. Judge Robart also held that Motorola would breach its RAND commitments to the ITU-T and IEEE by making bad-faith license offers to implementers of the standards.

On November 29, 2012, Judge Robart issued a summary judgment order denying Motorola's request for injunction on its standards essential patents. In doing so, Judge Robart applied the four-factor test for the availability of injunctive relief in patent infringement cases established by the U.S. Supreme Court in *eBay v. MercExchange*.

Judge Robart primarily relied upon the first two of the four *eBay* factors, namely, (1) that the party seeking an injunction would not be irreparably harmed if an injunction were not issued, and (2) that no remedies available at law would be adequate to compensate for the infringement so that an injunction would not be necessary. Because Motorola had not shown it had suffered an irreparable injury or that remedies available at law were inadequate to compensate for its injury, Judge Robart did not deem it necessary to delve into the remaining two *eBay* factors, specifically, (3) to consider the balance of hardships between the parties if an injunction were or were not to be issued, and (4) to weigh the public interest in issuing an injunction. As part of this "irreparable harm" analysis, the court took into consideration Motorola's RAND commitments to the ITU (and the IEEE) for its H.264 standard essential patent portfolio. The case included three Motorola patents asserted to relate to the H.264 standard—U.S. Patent Nos. 7,310,374; 7,310,375; and 7,310,376.

In issuing his dismissal, Judge Robart stated:

> the court grants Microsoft's motion dismissing Motorola's request for injunctive relief in this action. The dismissal is without prejudice. The court's determination that injunctive relief is no longer available for the Motorola Asserted Patents is based on the specific circumstances and rulings that have developed in this litigation. If, in the future, those circumstances change in a manner to warrant injunctive relief, Motorola may at that time seek such relief.

A trial to determine a RAND royalty rate was completed in December 2012, but Judge Robart has not yet issued a decision. A second trial will be held to determine whether the contract was breached, specifically, the commitment to grant a license for standard essential patents on a RAND basis.

Granting a motion for summary judgment, Judge Robart on Feb. 7, 2013 found certain claims in patents 7,310,374; 7,310,375; and 7,310,376 to be invalid.

[Note: On April 24, 2013, Judge Robart has issued a further decision, addressing FRAND issues. *See Microsoft v. Motorola, No. 10-CV-01823JLR, filed April 24, 2013.* Because it is so recent, an assessment of that decision is not included in this contribution.]

B. Microsoft v. Motorola (Ninth Circuit Court of Appeals) – Grant of Request for Injunction on Contract and Affirmation on Appeal

On September 28, 2012, the 9th Circuit issued its opinion in Microsoft v. Motorola. The case involves the issuance of a preliminary injunction by Judge Robart in the Western District of Washington to prevent Motorola from enforcing an injunction against Microsoft in Germany. The 9th Circuit upheld the trial court's decision based on the Standards Agreement, which Motorola had admitted, at the trial court level, is a binding and enforceable contract.

In upholding the preliminary injunction, the 9th Circuit stated:

> In particular, the face of the contract [between Motorola and ITU] makes clear that it encompasses not just U.S. patents, but all of Motorola's standard-essential patents worldwide. When that contract is enforced by a U.S. court, the U.S. court is not enforcing German patent law but, rather, the private law of the contract between the parties. Although patents themselves are not extraterritorial, there is no reason a party may not freely agree to reservations or limitations on rights that it would have under foreign patent law (or any other rights that it may have under foreign law) in a contract enforceable in U.S. courts . . .

> The Ninth Circuit further observed that "Whatever the appropriate method of determining the RAND licensing rate, it could well be that retrospective payment at the rate ultimately determined and a determination of the future rate, not an injunction banning sales while that rate is determined, is the only remedy consistent with the contractual commitment to license users of ITU standard-essential patents."

The case included Motorola German patents EP0538667 and EP0615384, as well as U.S. patents 7,310,374; 7,310,375; and 7,310,376, which Motorola declared to the ITU-T were essential to the H.264 standard.

C. Apple v. Motorola (Judge Crabb - Western District of Wisconsin) – Denial of Breach of Contract Claim for Seeking Injunction on Patent

On October 29, 2012, Judge Crabb issued a pre-trial opinion on whether seeking injunctive relief is a breach of contract, namely, the licensing commitment or assurance given by participants in ETSI and IEEE standardization activities who declare to ETSI and IEEE that they may own standards essential patents. Judge Crabb first observed that:

> [F]rom a policy and economic standpoint, it makes sense that in most situations owners of declared-essential patents that have made licensing commitments to standards-setting organizations should be precluded from obtaining an injunction or exclusionary order that would bar a company from practicing the patents. Thus, it may be entirely appropriate for a court or the International Trade Commission to deny a request for an injunction or exclusionary order by a patent holder that has made commitments to offer a license on reasonable and nondiscriminatory terms. However, whether Motorola breached its

contracts with ETSI and IEEE by seeking an injunction is a question that must be resolved using principles of contract law, not on the basis of economic policy or equitable principles.

Turning to the interpretation of the ETSI and IEEE IPR policies, Judge Crabb noted:

> There is no language in either the ETSI or IEEE contracts suggesting that Motorola and the standards setting organizations intended or agreed to prohibit Motorola from seeking injunctive relief. In fact, both policies are silent on the question of injunctive relief. Moreover, in light of the fact that patent owners generally have the right to seek injunctive relief both in district courts, 35 U.S.C. § 283, and in the International Trade Commission, 19 U.S.C. § 1337(d), I conclude that any contract purportedly depriving a patent owner of that right should clearly do so. The contracts at issue are not clear. Therefore, I conclude that Motorola did not breach its contracts simply by requesting an injunction and exclusionary order in its patent infringement actions. I will deny Apple's motion in limine on this issue."

In November 2012 the case was dismissed without prejudice. Judge Crabb pointed out:

> Apple had failed to show that its requested declaration would serve any purpose other than providing Apple a ceiling on the potential license rate that it could use for negotiating purposes. Apple was requesting that the court declare that Motorola breached its contracts and "declare" a FRAND rate for Motorola's patents, but Apple had refused to be bound by the rate chosen by the court.

The case includes Motorola's U.S. Patent No. 6,359,898, alleged to be an ETSI UMTS standard essential patent

D. <u>Apple v. Motorola (Judge Posner – Northern District of Illinois) – Patent Infringement Claim</u>

On June 22, 2012, Judge Posner dismissed all infringement claims brought by both parties because (following the court's earlier exclusion of damages experts) neither party could establish damages, nor was either party able to demonstrate an entitlement to an injunction. In applying the four-factor test established by the U.S. Supreme Court in eBay v. MercExchange to both Apple's and Motorola's claims for injunctions, Judge Posner stated that *"In fact neither party is entitled to an injunction. Neither has shown that damages would not be an adequate remedy."*

With respect to Motorola's claim that it was entitled to injunctive relief to prevent Apple's continued use of SEPs, Judge Posner wrote:

> I don't see how, given FRAND, I would be justified in enjoining Apple from infringing the [standard-essential patent] unless Apple refuses to pay a royalty

> that meets the FRAND requirement. By committing to license its patents on FRAND terms, Motorola committed to license the [standard-essential patent] to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent. How could it do otherwise? How could it be permitted to enjoin Apple from using an invention that it contends Apple *must* use if it wants to make a cell phone with UMTS telecommunications capability—without which it would not be a cell *phone*.

The case is on appeal at the Federal Circuit with final briefs due in March 2013. The case includes Motorola's U.S. Patent No. 6,359,898, alleged to be an ETSI UMTS standard essential patent.

E. <u>InterDigital Communications Inc., et. al. v. Huawei Technologies Co., Ltd., et. al., 1-13-cv-00008 (D Del March 14, 2013).</u>

In an ITC proceeding involving InterDigital patents, Huawei unsuccessfully asked the ITC to stay its exclusion order proceeding until the district court determines RAND. *Interdigital Communications Inc v Huawei Technologies Co, Inc*, Case 1:13-cv-00008-RGA (D. Del. 2013). In a Delaware district court proceeding, Huawei unsuccessfully asked the court to expedite discovery on the issue of whether the licensing terms offered by Interdigital were consistent with its obligation to license patents on FRAND terms. In the order, the court denied defendant's motions for expedited discovery and trial on their counterclaims to determine a FRAND royalty for three patents. The court concluded that "The gist of the request is that each Defendant will be harmed if its products are excluded from the U.S. by the lTC, that the ITC cannot set a FRAND rate, and that the Plaintiff will not offer it a FRAND rate although it has an obligation to do so..." The court did not consider it "practicable" to "race to a partial judgment here so that each defendant will be in a better position in the ITC litigation. Therefore, I will deny the motion for expedited discovery and trial in the two cases."

F. <u>Apple v. Samsung (Judge Koh - Northern District of California) Denial of Motion for JMOL on FRAND Breach of Contract Claim</u>

On January 29, 2013, Judge Koh issued an order granting in part and denying in part Apple's post-trial motion for judgment as a matter of law. Apple had argued to the jury that Samsung was liable for breach of contract violating (1) the ETSI IPR Policy's disclosure requirement and (2) ETSI FRAND licensing requirement. Regarding the first point, Judge Koh stated that there was no "clear weight of the evidence" of the causal link between Samsung's failure to disclose its Korean patent applications before the inventions were incorporated into the UMTS standard and the alleged harm, i.e. that ETSI would likely have adopted an alternative standard. On the second point, because the jury had heard conflicting expert testimony as to whether a license to Samsung's standard-essential patents at a 2.4% royalty rate, based on the sales price of Apple's products was consistent with Samsung's FRAND obligations, Judge Koh denied Apple's motion for judgment as a matter of law on its FRAND breach of contract claim.

The case included two Samsung patents U.S. Patent No. 7,675,941 and 7,447,516 declared in ETSI as essential to the UMTS standard.

G. Realtek Semiconductor v. LSI (Judge Whyte - Northern District of California) Denial of Motion to Dismiss a RAND Breach of Contract Claim

On October 10, 2012, Judge Whyte denied a motion to dismiss a RAND breach of contract case brought by Realtek Semiconductor Corporation against LSI Corporation and its subsidiary Agere Systems LLC. Judge Whyte stated that Realtek's allegations “plausibly support a claim that defendants breached their duty of good faith and fair dealing” and concluded that “[a]t this stage, it is inappropriate for the court to undertake a more searching scrutiny of the proposal's content or Realtek's allegations of unreasonableness.”

The case included LSI Corporation and Agere Systems LLC U.S. patents 6,452,958 and 6,707,867, patents that were declared to IEEE as being "essential" to the WLAN standard.

4. SUMMARY

The intentional abuse of a standards-setting process by a participant in order to gain an unfair competitive advantage ought not be condoned. Many of the due process-based procedural requirements reflected in the ANSI procedural requirements for the development of American National Standards provide certain safeguards in the process in order to minimize the risk of unacceptable and anticompetitive conduct surreptitiously taking hold.

With respect to the inclusion of patented technology in standards, there are incentives built into the system that cause it to be effective in discouraging duplicitous conduct by participants. The risks are that (1) the approval of the standard is subject to withdrawal, often rendering the company’s innovation relatively useless, (2) competitors can and usually do avail themselves of their legal rights in court if they believe they are being unfairly disadvantaged, and various legal claims, such as equitable estoppel, laches, patent misuse, fraud, and unfair competition may be available to prevent a patent holder from enforcing a patent covering an industry standard due to the patent holder’s improper conduct in a standards-setting context, and (3) in the case of deliberate misconduct, the FTC or DOJ can intervene. In addition, a company engaging in such conduct likely would lose some of its stature in the standards development community.

The ANSI Patent Policy has proven over time to be an effective means of addressing the incorporation of patented technology into standards. And, as noted, the ANSI IPRPC continues to monitor the effectiveness of that policy and its responsiveness to current needs.

ANSI thanks the hosts for inviting ANSI to participate in the GSC-17 and for the opportunity to comment and contribute to the meeting’s results.